Community Development Banking Institutions

Saurabh Narain, *Chief Executive*

Joe Schmidt, *Vice President, Investments and Research*

NCIF National Community Investment Fund

Leveraging Capital for Change℠

www.ncif.org

About National Community Investment Fund

National Community Investment Fund (NCIF) is a non-profit private equity trust fund established in 1996 to invest private capital in banks around the country that have a mission of economic and community development. NCIF is the largest investor of equity in CDFI banks (by numbers) in the country and has provided thought leadership by developing its proprietary Social Performance Metrics methodology – a tool that enables investors to measure the social and economic development impact of CDFI banks. It is also focused on strengthening the capacity of both investee and other development focused banks. Total assets under management are approximately $150 million including $128 million of NMTC allocations.

National Community Investment Fund

Relevance to CDBIs	NCIF Role
Making common and preferred investments	Patient common stock investor, strategic preferred investor.
Facilitating inflow of deposits and operating accounts	Facilitating acquisition of deposits from socially responsible and mainstream investors into CDBIs that target more resources in low- and moderate- income areas.
Helping book loans	Using NMTC allocation to assist CDBIs garner more earning assets; also enabling syndications among minority and CDBI banks.
Social Performance Metrics	Creating standards for social and community development impact measurement to support the sector.
NCIF Network of CDBIs	Best practices in governance, risk management, capital raising, customer segmentation, impact measurement and new technologies.
Research	Providing timely and comprehensive research on the sector, peer group information and other relevant analysis.
Advocacy	Promoting the impact generated by CDBIs in low- and moderate-income communities within rural and urban America.

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NCIF Team

Saurabh Narain, *Chief Executive*
snarain@ncif.org

Joe Schmidt, *Vice President, Investments and Research*
jschmidt@ncif.org

Wes Maher, *Vice President, Operations and Control*
wmaher@ncif.org

Joe Ferrari, *Analyst*
jferrari@ncif.org

Please visit our website for more information.

Acknowledgements

The intent of the report is to highlight a cohort of financial institutions that are working assiduously to provide financial services to the underserved in rural and urban America while being reasonable financial perfomers over a long period of time. Yet this is an unusually difficult time for several participants in the sector. Hence this report comes out at a time of significant importance – as characterized by NCIF, the sector is "too important to fail" – to help normalize it during the current economic crisis.

We have benefited from the sage advice and guidance from a number of individuals who are stalwarts in the industry namely Bill Dana, George Surgeon, David J. McGrady, Mary Houghton, Ellen Seidman, Ron Grzywinski, Chuck Van Loan, David Reiling, B. Doyle Mitchell, Peter Drasher and Luther M. Ragin, Jr.. We are grateful to them for their time in helping guide this document in support of the Community Development Banking Institution and certified CDFI Banking Industry.

Disclaimers and Disclosures

THIS REPORT SETS FORTH INFORMATION REGARDING A NUMBER OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND COMMUNITY DEVELOPMENT BANKING INSTITUTIONS, THEIR SOCIAL MISSIONS AND VARIOUS METRICS BY WHICH TO MEASURE THEIR SUCCESS IN SATISFYING THEIR SOCIAL MISSIONS. READERS OF THIS REPORT ARE CAUTIONED THAT THIS REPORT HAS NOT BEEN PREPARED WITH ANY PARTICULAR READER IN MIND AND EACH READER SHOULD REVIEW THIS REPORT CAREFULLY AND THEREAFTER MAKE ITS OWN DECISION AS TO WHETHER AN INVESTMENT IN DEBT OR EQUITY SECURITIES OR DEPOSITS OF COMMUNITY DEVELOPMENT FINANCIAL/BANKING INSTITUTIONS OR ANY PARTICULAR COMMUNITY DEVELOPMENT FINANCIAL/BANKING INSTITUTION IS APPROPRIATE.

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Table of Contents

NCIF has done a thorough job of analyzing the long term impact, risk and return of the larger Community Development Banking Institutions industry in helping expand the CDFI banking sector so that more capital can be injected into low- and moderate-income communities. We are delighted to see the robust development of the Social Performance Metrics tool for this purpose and we strongly support their mission.

Donna J. Gambrell
Director, CDFI Fund

NCIF has been a key partner in building TIAA-CREF's Community Bank Deposit Program. NCIF's metrics database was extremely useful both for identifying institutions for deposits and for monitoring our portfolio. In addition, NCIF's broad knowledge of the Community Development Banking Industry helped us be well-informed on events shaping the industry during a difficult period.

Scott Budde
Managing Director , Global Social + Community Investing, TIAA-CREF

NCIF's approach to measuring the social performance of Community Development Banking Institutions (CDBIs) is an important step forward in promoting the flow of capital into underserved markets around the country. Their focus on social impact, as well as financial performance, is consistent with our goals and objectives and we are proud to be NCIF's largest investor.

Dan Letendre
CDFI Lending & Investing Executive, Bank of America

Executive Summary

This paper provides an overview of the sector for **Community Development Banking Institutions (CDBIs)** and the vital role the sector plays in low- and moderate-income communities throughout the country.

Key Themes

- CDBIs represent a growing sector, in terms of numbers, asset size and social impact that has maintained strength in times of economic growth, as well as contraction. These institutions represent anchor and long-term providers of financial services in underserved markets.
- The CDBI sector is actually much larger than the currently approved list of certified CDFI banks.
- The social impact of the CDBI sector is consistently higher than peer groups. As a result, stakeholders need to consider taking significant action to support these high-impact institutions during the current economic downturn and beyond to ensure that underserved markets continue to have consistent access to responsibly priced financial services.
- At the median, the risk and return of this sector is comparable to non-mission oriented financial institutions.

Who they are?

CDBIs are banks and thrifts (referred to as "banks" in this paper) that have a mission of economic and community development. They have a substantial presence in low- and moderate- income communities and/or are focused on serving low- and moderate-income people. CDBIs provide both credit and non-credit financial products and services tailored to the needs of the communities they serve. CDBIs are federally insured depositories required to adhere to safe and sound banking practices.

Categories

Banks certified by the Community Development Financial Institutions Fund of the U.S. Department of Treasury as Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDIs) working for underserved minority populations, and other banks that have a mission of serving underserved markets but that do not have any formal certification as a CDFI. NCIF expects CDBIs to become certified as CDFIs in the future.

Number

As of December 31, 2010, there were 85 certified CDFI banks with assets and loans of $26 billion and $17 billion respectively. The larger group of 483 CDBIs (including the 85 CDFI banks) had assets of $217 billion and loans of $143 billion.

Impact Leverage

CDBIs generate leveraged impact and have often become anchor financial institutions in distressed communities. Institutional leverage of equity is 10x the amount of equity.

Impact Measurement

NCIF measures the impact of CDBIs using proxies of its Social Performance Metrics and Model CDBI Framework. The median Development Lending Intensity (% of housing loans originated and purchased in low- and moderate-income areas/ total housing loans) is 3.0 times higher than the median score of the identified peer group (banks with less than $2 billion in assets). In addition, the median Development Deposit Intensity (% of branch locations in low- and moderate-income areas / total branches) is over 5.3 times higher than the median score for the identified peer group.

Risk and Return

At the median, the financial risk and return characteristics of CDBIs are similar to the median profile of the same peer group.

Investment Options

Directly or via intermediaries like National Community Investment Fund (NCIF) including:

- *Common and preferred equity*
- *Operating accounts and core deposits*
- *Purchase of assets for capital management*
- *Co-lending and loan participations*
- *New Markets Tax Credits, SBA, Small Business Loan Fund, CDFI Bond Program and other government programs*

2 Introduction

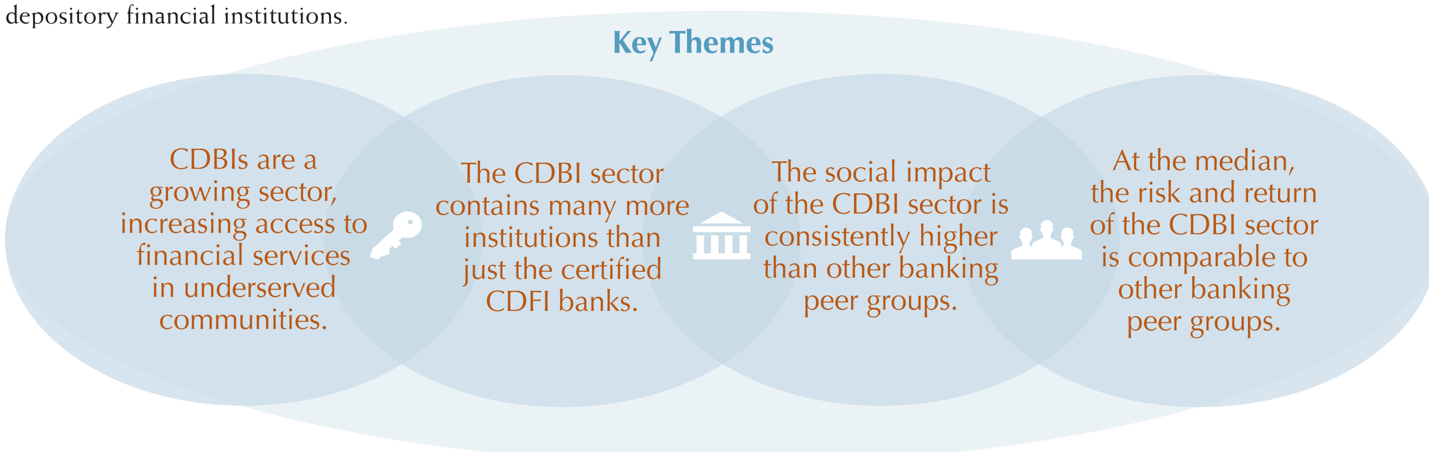
This is the first ever publication on the landscape of the Community Development Banking Institutions sector and has been created to provide an overview of the sector and the vital role it plays in low- and moderate-income communities throughout the country. This paper will provide data supporting the following key facts about the CDBI industry:

1. The Community Development Banking Institution (CDBI) sector is composed of insured depositories that are dedicated to serving underserved communities.
2. 483 CDBI banks can be identified through their CDFI certification[1] status and by using the NCIF Social Performance Metrics. NCIF believes that over a period of time, many of these institutions will become certified as CDFIs, thus increasing the asset class of certified CDFI banks.
3. CDBI institutions provide credit and non-credit products and are catalysts to the economic and community development in their service areas.
4. At the median, the risk profile and return characteristics for CDBIs are similar to the median risk and return characteristics of a peer group composed of "banks with less than $2 billion in assets." However, the social outputs (proxies for impact and measured by the Development Lending Intensity and Development Deposit Intensity) generated by CDBIs are much higher than the same peer group (3 times higher for lending and 5.3 times higher for branch operations). This underscores the need for stakeholders – public sector, private sector and philanthropic – to support CDBIs in these stressed economic times. This will ensure that access to responsibly priced financial services continue to be made available to economically vulnerable communities around the country.

Community Development Banking Institutions – Categories

CDBIs, are banks and thrifts (in this paper, we use the term bank to refer to both banks and thrifts) with a mission of meeting the financial services needs of low- and moderate-income communities in a safe and sustainable manner. CDBIs choose to be located in economically disadvantaged neighborhoods, and offer products and services that are tailored to meet the specific needs of the consumers and business owners that live and operate in these communities. They provide credit to small businesses, churches and non-profit organizations that have been turned down by larger regional and national banks. They lend to first time homeowners and developers of affordable housing. They finance commercial projects and community facilities that generate jobs, provide social services and catalyze additional economic activity in distressed communities. They provide financial education along with deposit and checking services to promote wealth generation and asset accumulation as an alternative to check cashers and payday lenders. By providing this crucial access to credit, non-credit and other financial services, CDBIs offer the tools that are necessary for economic growth, tools that are frequently absent in lower income communities.

Some of these institutions are self-selected and receive certification from the Department of Treasury's Community Development Financial Institution Fund (CDFI Fund) as a Community Development Financial Institution (CDFI) to demonstrate their mission focus. Some others are Minority Depository Institutions (MDIs) and are serving underserved minority neighborhoods around the country. Finally there are others that go about providing services to disadvantaged communities but have not sought any certification. We expect that over a period of time all CDBIs will become certified as CDFIs, resulting in a much larger asset class of high impact depository financial institutions.



[1] The Community Development Financial Institutions Fund (CDFI Fund) is a division within the US Department of the Treasury that certifies financial institutions that have a community development mission. Certified Community Development Financial Institutions (CDFIs) are able to apply for subsidy and grant programs. (www.cdfifund.gov)

The Community Development Impact of the CDBI Sector

The CDBI sector generates unparalleled impact in underserved markets. First, as insured depositories, CDBI banks leverage each dollar of equity up to ten times with deposits to generate loanable funds. Second, given their larger presence in low- and moderate-income communities, these leveraged funds are likely to be invested in these economically vulnerable neighborhoods. Third, these institutions do more than just provide credit services; they provide much needed depository and non-financial services. Finally, some of these financial institutions are the only responsible financial institutions in the area and become anchors for the community. They generate development impact over a long period of time and are essential in creating and retaining jobs, promoting small businesses and entrepreneurship, restoring a more normal market and catalyzing continued vitality in the communities that they serve.

It is not easy to convert long term community development "impact" into a single number representing social return just as metrics like "net income" or "return on investment" represent financial return in simple terms. We propose that modern portfolio theory take into account some measure of social return in the calculation of total return in its optimizations along the efficient frontier.[2]

In turn, the industry has to create proxies for social return (for example, changes in the percentage of lending in low- and moderate-income communities or changes in the percentage of branch locations in these areas) while also spending research dollars to quantify this impact. NCIF's Social Performance Metrics and the Model CDBI Framework are attempts to use quantitative and qualitative measures to highlight this social return.

The Impact of the Financial Crisis on the CDBI Sector

The current economic downturn has disproportionately impacted the low- and moderate-income neighborhoods served by CDBIs. Whereas national and state unemployment rates hover around nine percent, CDBIs are often serving communities with unemployment rates that are double the national rate. Property values have plummeted in many areas, and all banks (regular or CDBI) that are serving these unemployed borrowers and holding this distressed collateral are experiencing financial difficulty. Low-income borrowers who have historically demonstrated strong credit performance are now unable to withstand the multiple shocks of negative home equity and loss of employment. Despite this, it is emboldening to see that (while some CDBIs are having trouble from an asset quality and earnings perspective) many CDBIs continue to operate profitably with performing loan portfolios.

Even as these banks exit the crisis, they are being confronted with an increase in costs due to increased capital requirements and regulatory oversight causing further stress in short term financial performance.

Due to these factors, the risk of not supporting these institutions is high. It is important for all stakeholders to take significant action to maintain the strength of the CDBI sector to ensure that the gains in community and economic development and access to financial services are not lost. Given the impact of the sector, NCIF is characterizing this sector as *Too Important to Fail.*

Supporters of the CDBI industry may even go a step further – just as Congress mandated that the minority banking sector be protected under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) Section 308 – perhaps this is the time when Congress will consider legislating to protect and grow all institutions that are mission oriented and work to bring the 30-40 million underserved Americans into the financial mainstream. For reference and for further information, Appendix 2 includes summary information on the state-by-state distribution of CDBIs.

[2] While this discussion is only focused on the positive social return generated by community development investments, there should also be a discussion of the negative impact that some other investments have had on our communities. Examples include the harmful effects, both for individual borrowers and for society, of variable rate mortgage loans and other exotic mortgage products.

3 The Development of the CDBI Sector

In this section, we will outline the origin of the community development banking sector, and provide background on the three sub-sectors of the industry:

1. Banks that are certified as Community Development Financial Institutions (CDFIs),

2. Minority Depository Institutions (MDIs), and

3. Community Development Banking Institutions (CDBIs), as designated by NCIF.

The domestic banking sector is both large and diverse, with 7,666 banks (as of 12/31/2010) of all sizes and types operating to earn a profit while performing in the 'safe and sound' manner that is required by regulators. One characteristic that unites the majority of these banks is that they are 'single bottom-line' institutions: primarily interested in earning a profit for their stakeholders.

For socially motivated investors, there is no easy way to identify the subset of these institutions that have adopted a 'second bottom-line'– that is a mission of working in economically distressed areas while continuing to operate as a profitable business. One robust mechanism to find such institutions has been to work with the self-selected group of financial institutions that are certified as CDFIs by the US Department of the Treasury's CDFI Fund. Another method has been to consider MDIs that are serving economically disadvantaged areas.

However, these two groups add up to a very small number of financial institutions (approximately 236 or 3% of all financial institutions, as of 12/31/2010) even though over 30% of the census tracts in the country are considered low- and moderate-income. Since the number of community development banks is low relative to the number of LMI communities, it is likely that there may be many other institutions that have this double bottom-line focus. Once identified, investors (and other stakeholders) can support CDBIs that meet their geographic and programmatic areas of focus while simultaneously encouraging them to become CDFIs, thereby confirming their mission and resulting in the overall growth of the CDFI sector.

Along these lines, it can be informative to think of the CDBI space as a continuum between institutions with a strong, dedicated community development mission on one side, and non-mission oriented institutions on the other. CDFI banks, by detailing their social impact through a rigorous application process, are far to the mission side of the continuum. Then there are institutions that continue to work in underserved areas providing valuable services to these communities but have not have not yet chosen to become certified. Finally, there are other community banks that are local institutions that serve all their populations their service area, including underserved communities. It is useful to identify and support institutions that have a stated or demonstrated focus on low- and moderate-income communities or people, so that interested parties can readily identify them.

3.1 The Origins of Community Development Banking

CDBIs have existed since the start of the domestic banking system. However, the sector started to take shape as an industry out of the socio-economic changes that took place in the decades following World War II. Examples of such institutions are Broadway Federal Savings Bank, Carver Federal Savings Bank, ShoreBank and Southern Bancorp which were set up to counter the lack of financial services in their communities.

Both Broadway Federal Savings Bank (Los Angeles, CA) and Carver Federal Savings Bank (New York, NY) were founded in 1947 and 1948 respectively to provide the primarily African American residents in Central Los Angeles and Harlem with a locally-operated and minority-owned thrift for savings and for access to credit. Prior to the founding of these institutions, there were few options for residents in these communities to access safe and secure financial services.

ShoreBank was founded in 1973, when four colleagues from a nearby bank organized the purchase of South Shore National Bank, a bank that was no longer serving the needs of Chicago's South Shore neighborhood once the demographics of the community shifted from predominantly white to predominantly African-American. The founders believed that a bank could be a stabilizing force in the community. At the behest of then-Governor Bill Chilton and the Winthrop Rockefeller Foundation, ShoreBank utilized its community development banking experience to assist in the establishment of Southern Bancorp, a rural community development bank. While the communities that Southern Bancorp, and other rural CDBIs, serve are much different than those served by urban CDBIs, the need for access to sustainable financial services is probably as and sometimes more pronounced.

With the creation and growth of these mission orientated institutions, the concept of the community development bank was firmly established and resulted in the creation of more such institutions across the country.

3.2 Certified CDFI Banks

As a result of increased understanding of the importance of the work being done at banks like Broadway, Carver, ShoreBank and Southern, the Riegle Community Development and Regulatory Improvement Act of 1994 created the Community Development Financial Institution Fund (CDFI Fund) within the U.S. Department of Treasury. The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to Community Development Financial Institutions (CDFIs). The CDFI Fund certifies banks, credit unions, loan funds and venture capital funds as CDFIs; once certified, these institutions are eligible to compete for grant and investment programs available only to CDFI-certified institutions.

The certification process to become a CDFI is thorough and requires an institution to have a primary mission of promoting community development and to serve one or more of three Target Markets designated by the Fund, with at least 60% of the institution's activities directed toward the Target Market.[3]

Over the years, more and more community focused institutions have recognized the value of being certified and the number of certified institutions has grown steadily, even though the threshold for certification is high. The number of CDFI certified banks has grown (see chart below) from 39 as of December 31, 2001 to 85 as of December 31, 2010.[4]

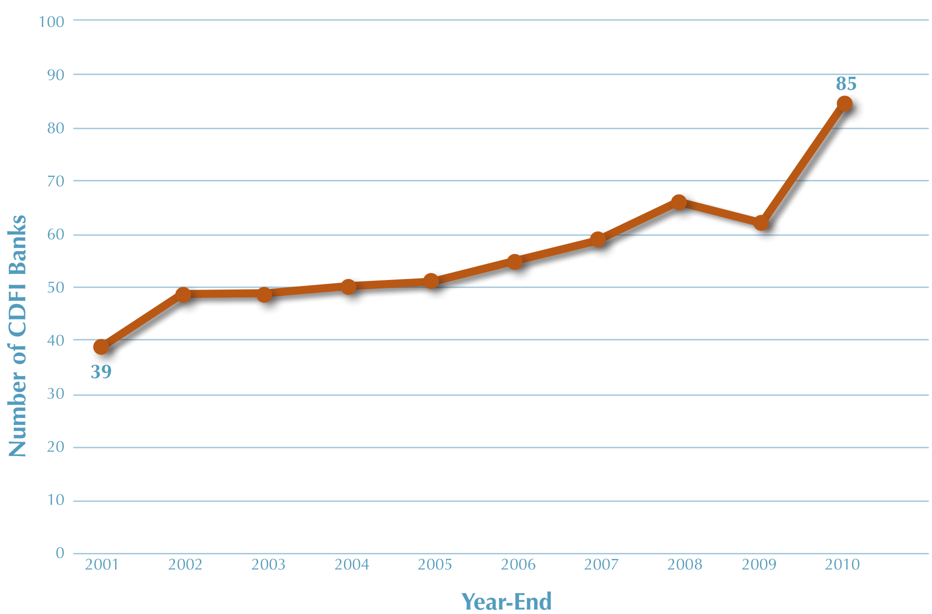
3.3 Minority Depository Institutions

Minority Depository Institutions or MDIs are banks that are owned by or focused on serving ethnic minorities[5] around the country. The Federal Deposit Insurance Corporation (FDIC) classifies MDIs, as:

> *Any federally insured depository institution where 51 percent or more of the voting stock is owned by minority individuals... In addition to institutions that meet the ownership test, institutions will be considered minority depository institutions if a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority.*[6]

Given their focus on ethnic minorities, Congress mandated that regulatory agencies take steps to preserve these insured financial institutions under Section 308 of FIRREA. As of December 31, 2010, there were 195 operating MDIs. Of these MDIs, 44 were certified CDFIs. This speaks to the fundamental mission overlap between many MDIs and certified CDFIs. Like the examples of Broadway and Carver provided earlier (which are both CDFIs and MDIs), many MDIs were established to meet the financial services needs of a population that was underserved by the existing banking system. Whether due to differences of language, cultural barriers or poor socio-economic standing, some communities of ethnic minorities were not being served, and social entrepreneurs founded banks that could have a significant impact on the lives of the residents in these unbanked neighborhoods.

Chart 1: Number of Certified CDFI Banks by Year



[3] For more information on CDFI Target Markets, visit: www.cdfifund.gov

[4] Data on number of certified CDFI Banks prior to 2001 is not readily available. There were 86 CDFI banks as of the 12/31/2010 CDFI Fund listing, but this report shows 85 because one was acquired in late 2010. As of 12/31/2010, there were 939 total CDFI organizations, including 572 loan funds, 203 credit unions, 25 venture capital funds and 48 bank holding companies.

[5] Black/African American, Hispanic American, Asian or Pacific Islander American, Native American or Alaskan Native American or Multi-racial American

[6] http://www.fdic.gov/regulations/resources/minority/MDI_Definition.html

3.4 Community Development Banking Institutions

DESIGNATED
COMMUNITY DEVELOPMENT
CDBI
BANKING INSTITUTION

As mentioned earlier, given that over 30% of the census tracts in the United States are designated low– and moderate-income, there should be many more mission oriented banks than just 85 CDFIs or 236 CDFIs plus MDIs, representing 1% and 3% respectively of the total number of domestic banks.

In the search for a means to classify such institutions, NCIF created the term Community Development Banking Institution (CDBI) to denote CDFI and other banks (including MDIs) that have a mission of community and economic development. They "walk, talk and act" like CDFI banks but may not currently be certified as such. It is our expectation that these institutions will eventually become certified as CDFIs, creating a larger universe of institutions with this important federal designation.

The CDBI methodology is provided in the Appendix 4. For a non-CDFI Bank to receive the CDBI designation, it must display a strong community development orientation, both quantitatively and qualitatively.

Quantitatively, designated CDBIs must score highly on the NCIF Social Performance Metrics, a suite of transparent measures that analyze the percentage of each domestic bank's lending and branch locations that are located in low- and moderate-income communities.

Initially, NCIF used home lending data obtained from the Federal Financial Institutions Examination Council (FFIEC – the agency that collects data under HMDA, the Home Mortgage Disclosure Act) to calculate the Development Lending Intensity (DLI: % of home lending in LMI areas) but will expand this to include other forms of lending when available through voluntary reporting by the banks. Similarly, NCIF used branch location data obtained by the FDIC to calculate the Development Deposit Intensity (DDI: % of branch locations in LMI areas). For more detail on the Metrics and Quadrant Chart please see page 8.

NCIF proposes that the initial set of institutions to be considered for designation as CDBIs be comprised of certified CDFI Banks and banks located in Quadrant 1 of the NCIF Social Performance Metrics Quadrant Chart. Quadrant 1 includes all banks with scores that exceed the initial thresholds on Development Lending Intensity and Development Deposit Intensity.

For the sake of clarity, throughout the remainder of this paper it is this group of banks – which includes all CDFI Banks, and 398 other financial institutions meeting the 50% DDI and 40% DLI thresholds – that will be referred to as CDBI Banks. The peer group for CDBI Banks is considered to be the universe of domestic financial institutions with under $2 billion in assets.

Based on the most recent 2009 Social Performance Metrics data, there were 398 banks located in Quadrant 1 that were not certified CDFIs. Adding the 85 certified CDFI banks brings the total number of CDBI banks in this analysis to 483. These institutions are headquartered in both urban and rural communities in 38 states as well as Washington D.C. and Puerto Rico[7] and represent total assets of $216.5 billion, as of December 31, 2010.

As Table 1 illustrates, 71% and 29% of CDBI Banks are headquartered in urban and rural communities respectively. Relative to the $2 billion peer group, this distribution is currently skewed more toward urban institutions as community development has historically been focused on cities and LMI census tract designations are more prevalent in urban areas. However, the CDFI Fund and other community development focused professionals are as focused on reaching out to rural institutions and many of the newly certified CDFI banks are from rural areas.

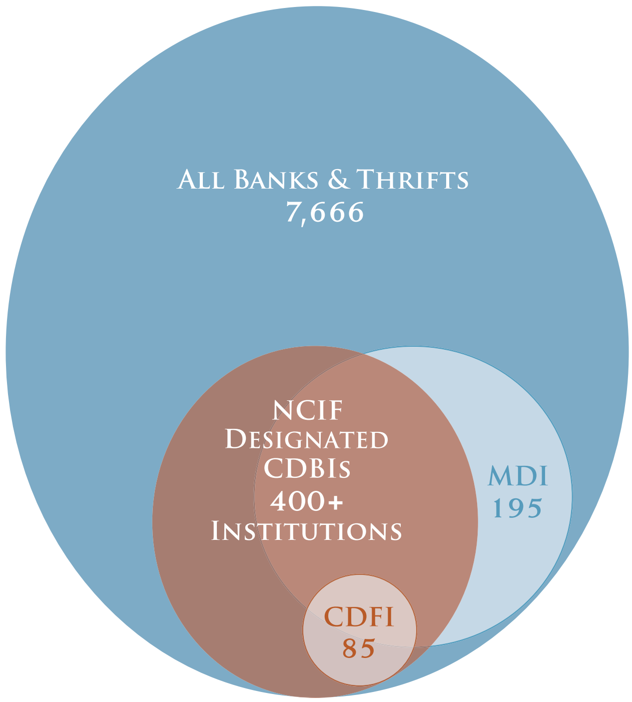
Table 1: Percentage of Urban and Rural Banks by Sub-Sector

Bank Sub-Sectors	Urban	Rural	Total
CDFI Banks	62 (73%)	23 (27%)	85 (100%)
MDI Banks	171 (88%)	24 (12%)	195 (100%)
CDBI Banks	341 (71%)	142 (29%)	483 (100%)
Banks with < $2 Billion in Assets	3,958 (54%)	3,354 (46%)	7,312 (100%)

[7] As of 2010 there were no CDBI banks headquartered in the following states: Alaska, Delaware, Hawaii, Idaho, Montana, Nebraska, Nevada, North Dakota, Rhode Island, South Dakota, Utah, Vermont.

Qualitatively, designated CDBIs need to demonstrate a community development focus and a focus on serving the financial needs of low- and moderate-income communities. NCIF uses the Model CDBI Framework to analyze the above 483 banks for the designation. For more detail on the Model CDBI Framework please see page 9.

This diagram* below illustrates the interconnectedness of the CDBI, CDFI and MDI sectors, within the universe of all banks. In addition, we provide information on the size of the sector and summary statistics on financial and social performance of these institutions by state in the appendix.



*As of 12/31/2010. Sources: www.fdic.gov, www.cdfifund.gov

NCIF emphasizes that our selection methodology included herein this is not a complete list of CDBIs; this is only an initial list based on publicly available information. As more public and private information becomes available from institutions in Quadrants 2, 3 and 4, NCIF will continue to add more names to the list of Designated CDBIs. In addition, NCIF hopes that institutions increase their lending in LMI areas, thus becoming CDBIs in the future.

Quantitative Analysis: Social Performance Metrics

The Social Performance Metrics analyze social performance outputs and branch locations directed to low- and moderate-income areas relative to total lending and branch locations. This paper focuses on the following two core metrics.

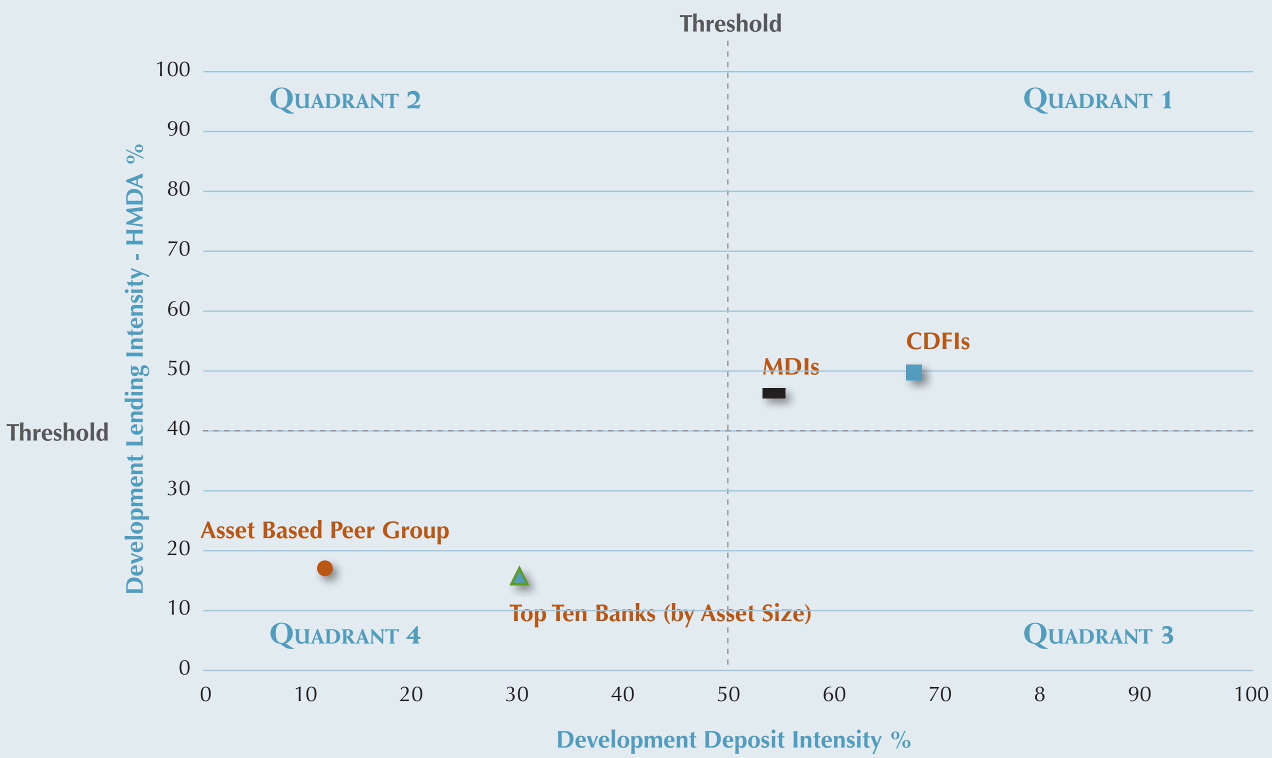
Core Metrics

Development Lending Intensity (DLI)
The percentage of an institution's loan originations and purchases, in dollars, that are located in low– and moderate-income (LMI) census tracts. As of now, this metric is generated using HMDA data that is publicly available. As more private data becomes available, NCIF will expand the metric across all lending types.

Development Deposit Intensity (DDI)
The percentage of an institution's physical branch locations that are located in LMI census tracts.

NCIF then applies the threshold levels (40% for DLI, 50% for DDI) to plot the entire universe of 7,666 banks into one of the four quadrants. Quadrant 1 represents those institutions that score above the threshold values for both DLI-HMDA and DDI demonstrating a high level of activity within LMI communities and can qualify as CDBIs.

CDFI Bank Median NCIF Social Performance Metrics Comparison



Source: www.ffiec.gov, www.fdic.gov

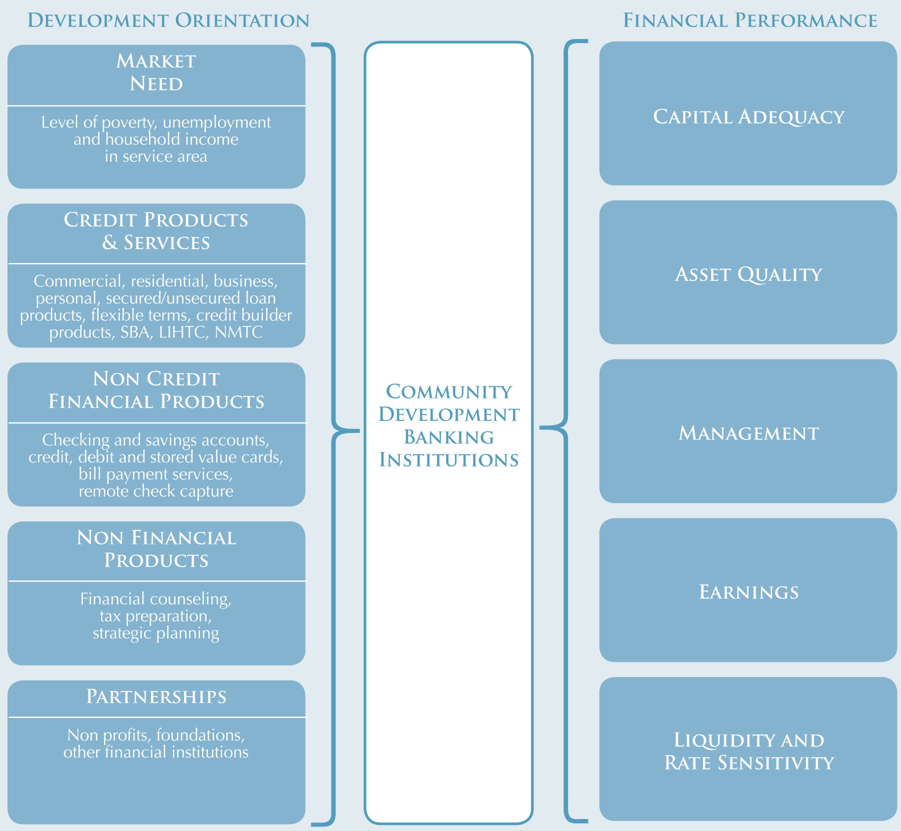
As of: DLI data based on 2009 HMDA Reports; DDI based on 6/30/09 Summary of Deposits Reports.

As the above chart illustrates, the median scores for CDFI Banks falls in Quadrant 1, along with the median scores of MDI banks. However, the Top Ten Banks by Assets Size and the under $2 Billion Bank peer groups are located in Quadrant 4. This confirms the intuition that CDFI banks are more focused on meeting the needs of the consumers and businesses located in LMI communities, as demonstrated by their lending activity, as well as their branch presence.

More detail on the full suite of Social Performance Metrics, can be found at the NCIF website: www.ncif.org.

Qualitative Analysis: NCIF Model CDBI Framework

NCIF supplements the quantitative metrics with a qualitative analysis of an institution's operation to fully ascertain whether or not an institution has a community development orientation and is therefore a CDBI.



NCIF uses its Model CDBI Framework, as illustrated above, to do a five-part test of the Development Orientation of a bank as follows:

1. **Market Need:**
   Is the service area where the bank is operating a distressed or underserved area? Are there communities or ethnicities that are underserved? Are there food deserts or pockets with no affordable housing, etc?
2. **Credit Products and Services:**
   Are lending products/services being created and offered to meet the above-stated market needs of the communities and consumers served? Are these products and services responsibly priced?
3. **Non-Credit Financial Products:**
   Is the bank offering non-credit products that meet the needs of the communities and consumers served, such as secured credit cards, payment products, prepaid cards, etc? Are these products responsibly priced?
4. **Non-Financial Services:**
   Is the bank providing financial counseling, homeowner education or other non-financial services?
5. **Partnerships:**
   Does the bank foster or enter into partnerships with public sector agencies, other financial institutions, or nonprofit organizations to catalyze comprehensive economic development?

NCIF then does a modified CAMELS analysis to evaluate the financial performance and condition of the institution to determine whether the investment generates both a financial and social return. Following the CAMELS model, NCIF examines the Capital Adequacy, Asset Quality, Management, Earnings and Liquidity and Rate Sensitivity.

4 CDBI Impact, Risk & Return

Modern portfolio theory attempts to maximize financial return given a certain level of risk. The current economic crisis has demonstrated that this optimization did not take into account several factors: not only was risk underestimated, but return calculations did not take into account the positive social return associated with community development investments (or the costs associated with indiscriminate use of public goods or unsustainable financial practices). We propose that the industry formally evaluate investment decisions to take into account the following three axes:

4.1 (Proxies for) Impact

Does the financial institution's work catalyze change in the quality of life of the people or in the communities it serves? The authors recognize that change in the quality of life is effected over a long period of time and is difficult to measure. Given these difficulties, the authors propose using proxies of social output as an initial measure of 'impact' by making a formal assumption that such social output (i.e. increase in the quantity and quality of financial services in low- and moderate-income communities) creates positive change. It is in this context that NCIF created the Social Performance Metrics as one proxy for impact. We have mined publicly available data on all banks since 1996 to create three broad sets of analysis:

1. Social outputs of an institution at a point in time;
2. Social outputs of an institution relative to peer groups of institutions; and,
3. Social outputs of an institution over a 15-year period of time.

We hope that this simple but effective analysis will, first, formally encourage analysts to use 'impact' in optimization equations and second, catalyze the development of additional proxies in the future that can add to the industry knowledge to further describe community and economic development.

4.2 Risk

We examine risk since 2000. This helps us compare the risk of the financial institution under normal times vs. during extreme periods of economic stress. By virtue of the fact that CDBIs have a larger proportion of their bank presence and lending in low- and moderate-income areas – by design and to generate the substantially higher impact in these areas – it is to be expected that there will be extraordinary levels of stress in this sector. Risk also needs to be examined in two ways:

1. **Institution Level Risk** – is a particular institution in danger of failing? Here we compare the median data on non-current loans, net charge-offs and Texas ratios relative to peer groups;
2. **Product Level Risk** – will a particular product yield a financial return relative to its risk profile? This depends on the nature of the investment product used by the investors; deposits within the insured limits are fully insured by the FDIC and hence do not carry any institutional risk; on the other hand, riskiness of debt and equity products bears primarily the risk of the institution in which the investor invests.

4.3 Return

We then examine the median financial return of the CDBI and CDFI sector using return on average assets (ROAA) and return on average equity (ROAE).

Investors need to do their own due diligence on risk, return and impact before making investment decisions.

As mentioned in the introduction, NCIF proposes that the investment community evaluate both financial and social returns generated by an institution or a product creating the following equation:

Total Return = Financial Return + Social Return

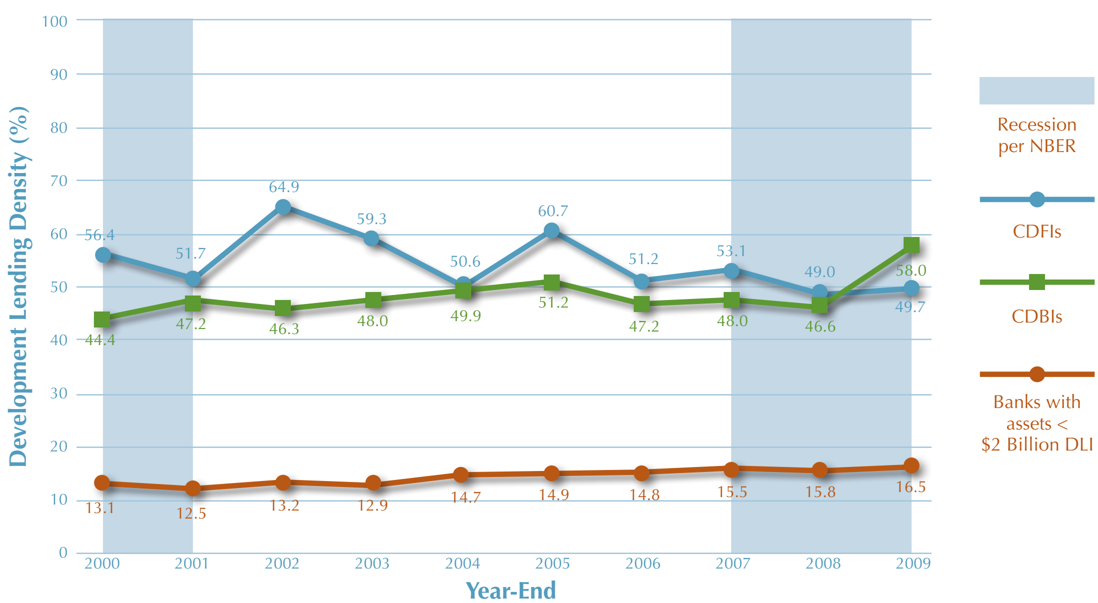
Currently, social return is underemphasized for a number of reasons including the fact that it is difficult to quantify impact, that is an improvement in the quality of life of people. Also, even if impact were more easily measurable, change in quality of life takes place over a long period of time, i.e. much longer than the investment time horizons of most investors who are used to monitoring 'quarter by quarter performance.' We propose, therefore, that proxies be created using measurement of social outputs to help move-the-needle in the calculation of Social Return.

5.1 Social Performance Metrics: Development Lending Intensity HMDA[8]

Over the last 10-years, the percentage of CDFI bank home lending that is directed towards low- and moderate- income communities is much higher than that of all banks with assets below $2 billion.

Chart 2: 10 Year Median DLI-HMDA Score Peer Group Breakdown

The median CDFI Bank outperforms the median bank with less than $2 billion in assets by a factor of 3.0 in terms of development lending intensity (DLI-HMDA) in low- and moderate-income neighborhoods.



Based on this analysis, the median CDFI bank has a DLI-HMDA score of 49.7% for loans originated during 2009. Interpreted in another way, this suggests that for every $100 of home lending generated by the median CDFI bank, almost $50 dollars is being lent to a resident of a low- to moderate- income community. For the under $2 billion peer group, the median DLI-HMDA was just under $16.50 of lending being provided to a lower income area. **Thus the median CDFI bank outperforms its peer group by a factor of three and has consistently done so since 2000.**

Similarly, the CDBI group has a median DLI-HMDA score of 58.0% for 2009. Since the CDBI group has been identified due to Social Performance Metrics scores, it stands to reason that the DLI-HMDA score for this group will be comparable to that of the CDFI group, thus reinforcing the focus that these banks have in LMI areas.

The implications for a socially motivated equity investor are hence very compelling - $1 of equity investment creates $10 of funds available for lending; assuming that the bank lends the full $10 in the form of home loans, approximately $5.80 will be lent in economically disadvantaged areas each year, i.e., a leverage of 580%. Needless to say, since this is the median score there are 50% of CDFIs and CDBIs with DLI-HMDA scores in excess of 58.0% – some well in excess of 70%.

Similarly a depositor in these banks creates approximately $0.58 in low income lending for each $1.00 deposit. This direct impact in LMI communities makes these investments very potent.

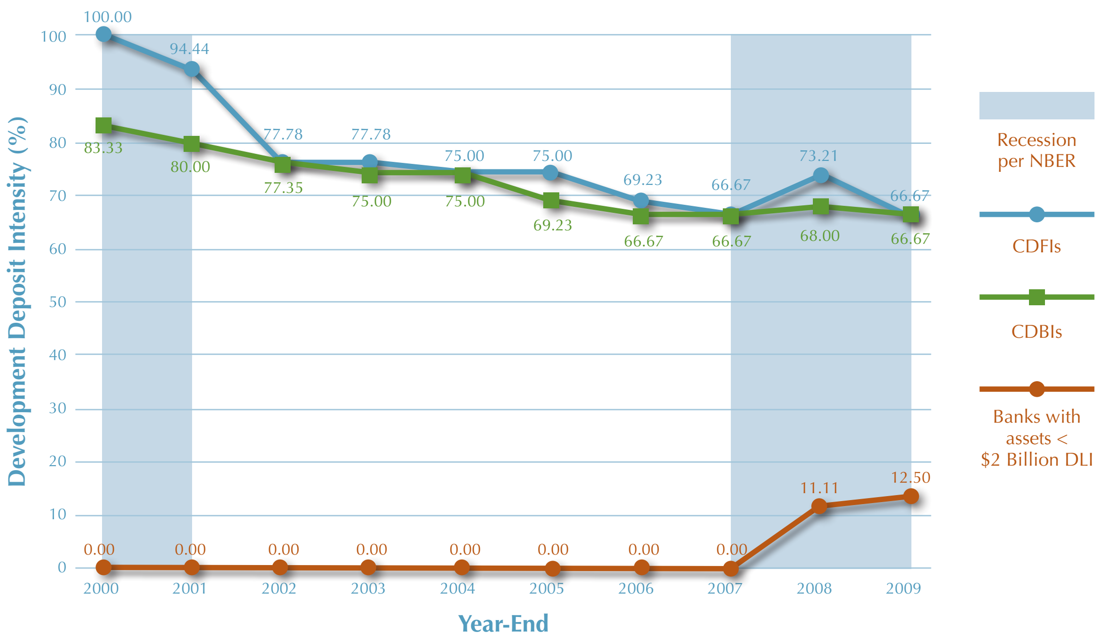
[8] Development Lending Intensity-HMDA is the percentage of home loans originated/purchased in low-and moderate-income communities as a ratio of all home loans originated/purchased during the year.

5.2 Social Performance Metrics: Development Deposit Intensity[9]

During the same time period (2000-2009), the percentage of CDFI bank branch locations that are located in and serving the needs of lower income areas was much higher than for all banks with assets below $2 billion. For the period 2000 through 2007, the median peer group bank had minimal branch presence in disadvantaged areas while the median CDFI bank was operating anywhere between 100% and 66.7% in the same communities.

Chart 3:
10 Year Median DDI Score Peer Group Breakdown

The median CDFI bank operates two-thirds of its branch locations in LMI moderate- income areas. The median bank with less than $2 billion in assets has only 12.5% of its branches in the same communities.



As of June 30, 2009, two out of three CDFI and CDBI bank branch locations were located in low- and moderate-income communities. These branches were providing the business owners, community groups and residents of distressed communities with the sustainable lending products and services that are a necessary ingredient to economic development and to wealth generation.

In addition to providing sustainable products and services, a physical location in these communities is important in two respects. First, a brick and mortar presence demonstrates accountability to the surrounding neighborhoods. Second, being headquartered in and serving these communities signals to investors and supporters that the institution is truly dedicated to the community; that the bank is committed to tying its prospects to the prospects of the people and businesses that it serves.

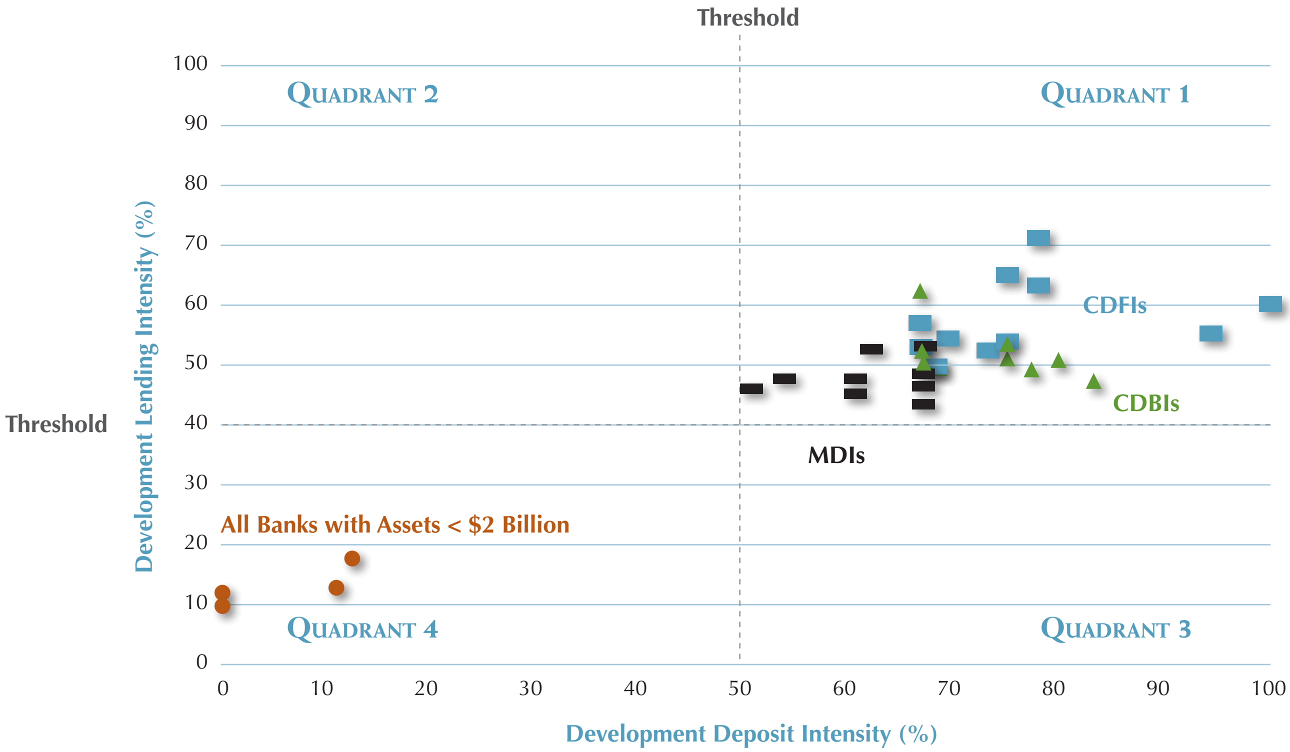
[9] Development Deposit Intensity is the percentage of the bank's branches that are located in low- and moderate-income communities.

5.3 Social Performance Metrics: Quadrant Analysis

By transposing the data to the Quadrant chart introduced earlier, it is easier to see that the median CDFI bank, the median MDI bank and the median CDBI bank are consistently located in the "High-Performing" Quadrant 1; on the other hand, the median "less than $2 billion in assets bank" is in Quadrant 4.

This relative high performance is observed year–on-year for the last ten years demonstrating the significant mission focus of the universe of CDBI Banks, including CDFI and MDI Banks.

Chart 4: Quadrant Chart Peer Group Breakdown – 2000-2009



Over the last 10 years, the median CDFI bank , the median MDI Bank and the median CDBI Bank had Social Performance Metrics scores in the 'high-performing' Quadrant 1.
The median "less than $2 billion in assets bank" fell in Quadrant 4 during this period.

This graphic reinforces two ideas:

(1) that CDFIs are much more active in LMI communities than non-mission oriented institutions, and

(2) that the CDBIs that have Social Performance Metrics scores in Quadrant 1 are providing services to and are lending in communities that have socio-economic characteristics that are very similar to the neighborhoods served by CDFIs.

While this chart has been built using publicly available home lending data, we believe that CDBIs have similar amounts of other kinds of lending in LMI areas such as small business, commercial real estate, commercial and industrial, etc.

5.4 Qualitative Analysis: Impact stories associated with the NCIF Model CDBI Framework

Following are examples of impact stories that illustrate the Model CDBI Framework in action. The responses are taken directly from CDBIs from around the country, and provide insight into the ways that these banks develop innovative products to serve the specific needs of their customers.

1.What **Credit Products and Services** is the institution providing to its customers?

Liberty Bank and Trust of New Orleans is an MDI and certified CDFI that is headquartered in New Orleans, LA with a branch network that serves distressed communities in Jackson, MS; Kansas City, KS; Houston, TX and Detroit, MI. Liberty has been one of the most active banks among minority communities in New Orleans since the 1970s providing financing for housing, non-profits and commercial facilities. It worked with the city and state governments to create the **Road Home Program** post Katrina to help in the reconstruction of the city. The bank's DLI-HMDA score is 44.7% and the DDI score is 77.8%.

2. What **Non Credit Financial Products** are being offered by the bank?

First American International Bank, an MDI and certified CDFI headquartered in Brooklyn, offers a **secured Visa card program** to its customers. This product is tailored to recent Chinese immigrants and other customers who have no credit history or who need to improve their credit score. Through continued use of this card, a customer will improve their creditworthiness and will be able to move up the credit ladder to qualify for unsecured cards and loans. The bank's DLI-HMDA score is 44.5% and the DDI score is 66.7%.

3. What **Non-Financial Products** is the institution providing?

Industrial Bank, a certified CDFI and MDI headquartered in Washington, DC is active in providing **financial education and literacy training.** In partnership with Operation Hope, the bank offers a "Banking on our Future" program. This program teaches children and teenagers in grades K-12 the fundamentals of important financial topics, including saving, budgeting, general banking, and credit management. During 2010, Industrial Bank worked with close to 300 students through this program. The bank's DLI-HMDA score is 57.3% and the DDI score is 71.4%.

4. What **Partnerships** is the institution involved in with non-profit groups, government and other organizations serving the community?

Southern Bancorp Bank, a certified CDFI in Arkadelphia, AR spearheaded the **Delta Bridge Project,** a public-private partnership that was successful in improving the Helena-West Helena community in Phillips County, Arkansas. The wide-ranging endeavor is working to improve every facet of life in Phillips County, and strategic plans are being implemented that deal with education, healthcare and economic development. The bank's DLI score is 47.5% (this is based on total lending) and the DDI score is 69.0%.

As the Social Performance Metrics data and the Model CDBI Framework stories demonstrate, CDFIs, as a proxy for the CDBI industry, are having a significant impact in economically disadvantaged communities in both rural and urban settings. By being responsive and accountable to these communities, these banks and thrifts are providing services that generate significant small business, home lending and commercial real estate activity in these areas.

6 Analysis of Business Activity and Risk of the CDBI Sector

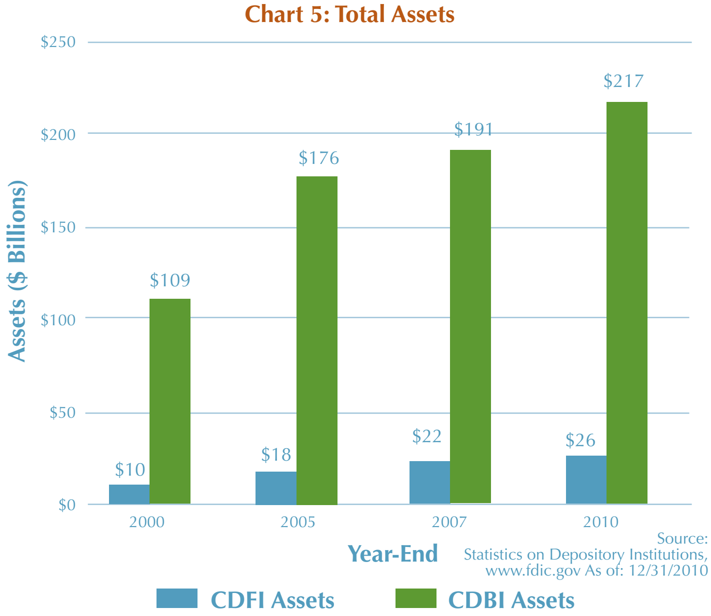
As the previous section details, the CDBI sector is composed of institutions that are located in and lending to the same disadvantaged communities that the smaller CDFI bank sector is serving. By identifying these LMI focused institutions, it is possible to examine their performance to determine whether or not they are able to be profitable and manage risk while serving economically vulnerable communities.

As the data indicates, since 2000, the CDBI sector has shown reasonable financial performance and risk characteristics. Over this period, the CDBI sector has grown, both in assets and total loans demonstrating consistent local development focus in good times and also during the current economic downturn.[10] In addition, the CDBI ratios on standard asset quality measures illustrate that the industry has been only modestly underperforming the peer group of banks with less than $2 billion in assets. For socially motivated investors this demonstrates a sustainable business model with significant and consistent impact in local communities.

6.1 Growth in Assets

As Chart 5 illustrates, the total assets of the CDFI banking sector increased from $10.5 billion in 2000 to $25.9 billion as of December 31, 2010 representing a compound annual growth rate of 9.45%. During the same period, total assets for the larger group of CDBIs grew from $109.0 billion to $216.5 billion between 2000 and 2010. This represents a compound annual growth rate of 7.3%. This demonstrates the fact that mission oriented institutions continued to lend monies and grow during the course of the review period and even during the recession. The size and growth of the larger sector demonstrates both the growing stability of the sector and the potential of increasing the asset class of CDFI banks that have continued to lend and grow despite the crisis.

Chart 5: Total Assets



Source: Statistics on Depository Institutions, www.fdic.gov As of: 12/31/2010

Table 2: Number and Median Asset Size of CDFIs and CDBIs

	2000		2005		2007		2010	
	#	Median Assets ($000)	#	Median Assets ($000)	#	Median Assets ($000)	#	Median Assets ($000)
CDFIs	74	$73,632	81	$122,728	84	$141,552	85	$180,329
CDBIs	426	$94,301	448	$128,344	476	$140,706	483	$171,335

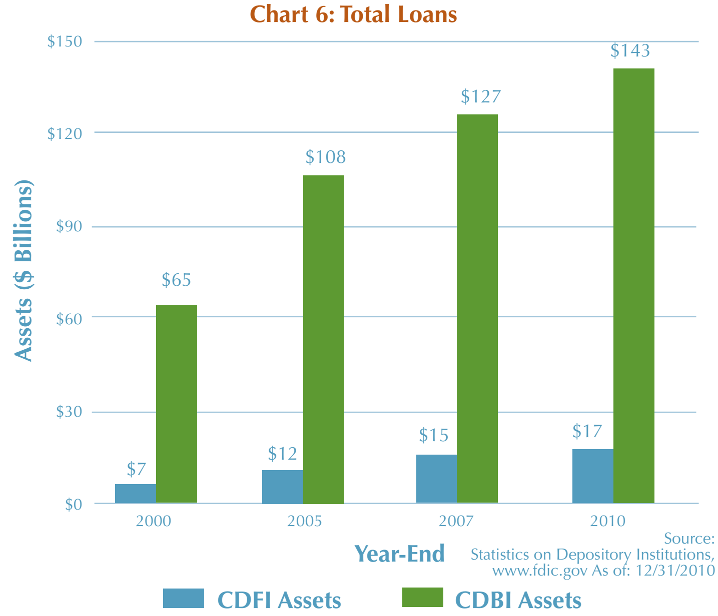
Source: Statistics on Depository Institutions, www.fdic.gov As of: 12/31/2010

6.2 Growth in Total Loans

As Chart 6 illustrates, total loans outstanding at CDFI Banks grew to $16.6 billion in 2010 growing from only $6.6 billion in 2000 including a growth of $2 billion during the 2007-2010 period of economic crisis. The growth of the CDBIs also demonstrates the full potential in increasing the asset class of CDFI banks.

As many other lenders reduced their credit lines, CDBIs continued to spur economic development by lending. These loans are crucial to the continued development and viability of the communities that are being served. By providing more resources to the sector, we can continue to increase the lending that is ultimately reaching the underserved small business owners and individuals within LMI areas.

Chart 6: Total Loans



Source: Statistics on Depository Institutions, www.fdic.gov As of: 12/31/2010

Table 3: Number of institutions and Median Total Loans Outstanding

	2000		2005		2007		2010	
	#	Median Loans ($000)	#	Median Loans ($000)	#	Median Loans ($000)	#	Median Loans ($000)
CDFIs	74	$44,987	81	$80,230	84	$91,682	85	$114,770
CDBIs	426	$58,205	448	$82,498	476	$94,250	483	$112,372

Source: Statistics on Depository Institutions, www.fdic.gov As of: 12/31/2010

[10] This is an historical analysis based on the 85 certified CDFI banks as of 12/31/2010. For example, only 74 of these banks were active as of 12/31/2000.

6.3 Asset Quality: Noncurrent Loan Ratio

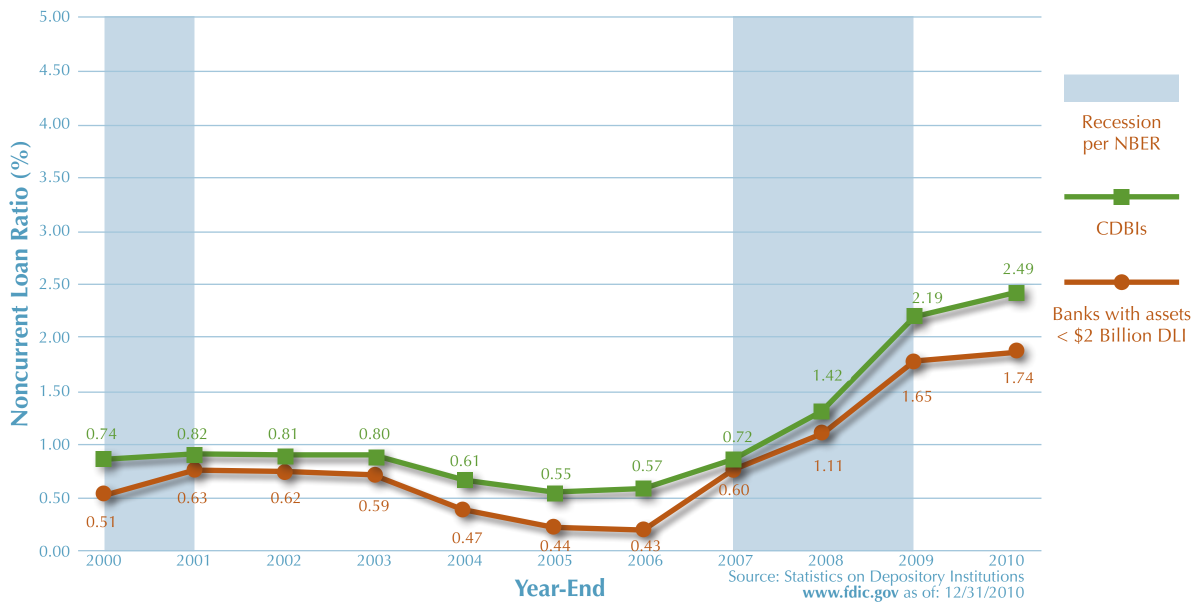
This ratio calculates the percentage of noncurrent loans (loans that are 90 days or more past due plus those that are on non-accrual status) to total loans and represents the level of stress in the balance sheet.

As Chart 7 illustrates, between 2000 and 2007 the median non-current loan ratio of the two peer groups – CDBIs and Banks with less than $2 billion in assets (asset based peer group) was very low. The data also demonstrates that, in normal times, the level of institutional risk across peer groups is comparable.

It is clear that since the crisis, the CDBI peer groups has shown higher levels of stress. As discussed elsewhere, this is partly to be expected due to the vulnerabilities of the communities supported by the sector.

Chart 7: Median Noncurrent Loan Ratio

Between 2000 and 2007, the median non-current loan ratio for CDBIs was comparable the ratio for the asset based peer group; even during the crisis it has not significantly diverged.



6.4 Asset Quality: Net Charge-off Ratio

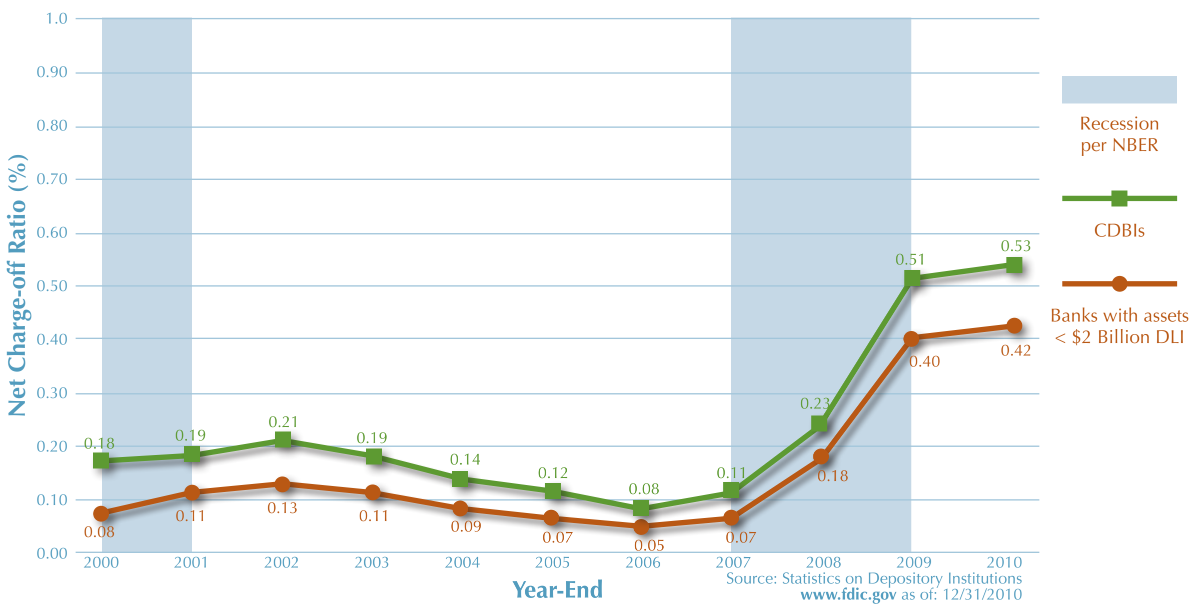
The noncurrent loans to loans ratio gives the percentage of a bank's lending portfolio that is noncurrent, while the net charge-off ratio provides the percentage of a bank's lending portfolio that has been written off as a loss. Historically it has been asserted that community development banks have a greater degree of connection with the local communities in which they operate giving them a greater ability to manage non-performing loans and hence to have a low or comparable net charge-off ratio. The chart below supports this assertion.

The historical analysis of the net charge-off ratio in Chart 8 demonstrates that the median CDBI bank, while underperforming the non-mission peer group, has a median ratio that is running very close to the peer group ratio and that it was improving, both in absolute terms and in relation to the peer group, between 2002 and 2006. In addition, while the CDBI non-current loan ratio has increased more than the asset based peer group median ratio as of December 31, 2010, the corresponding net charge-off ratio remains only 11 basis points higher than peer.

A word of caution – the crisis is still not over and it is possible that the CDBI banks may continue to realize losses, leading to further deterioration in this ratio in the future.

Chart 8: Median Net Charge-off Ratio

Between 2000 and 2007, the median net charge-off ratio for CDBIs and for the asset based peer group, was comparable; during the current crisis it has diverged by 11bp, a gap of only 1bp more than it was in 2000.

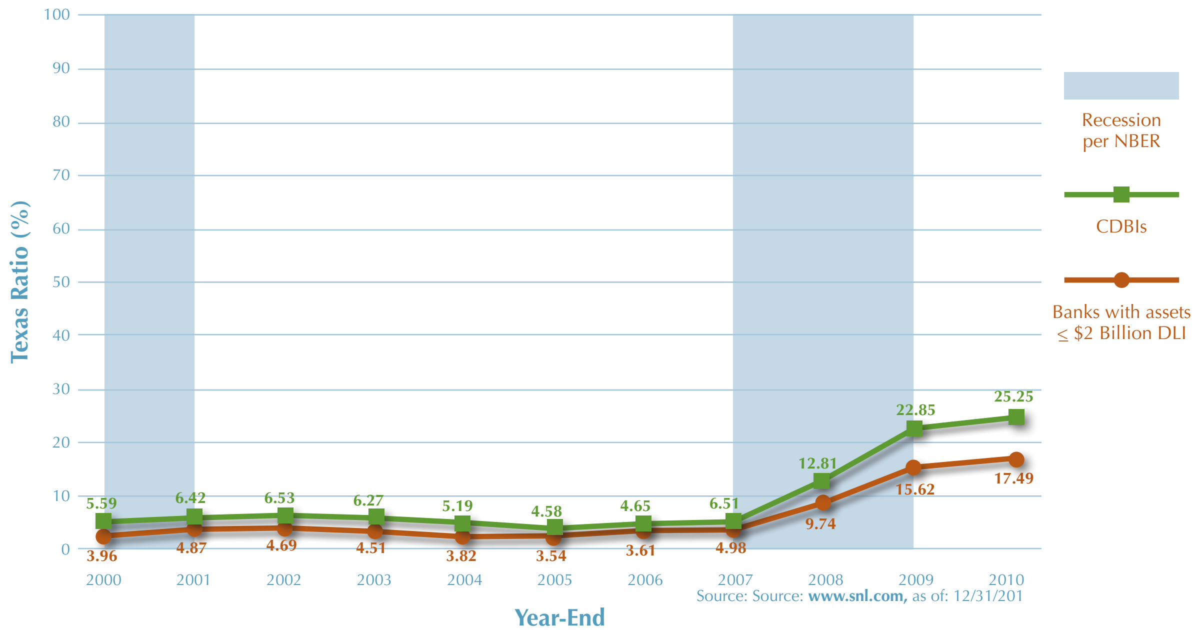


6.5 Asset Quality: 'Texas Ratio'

The 'Texas Ratio' was coined by bank analysts looking for potential bank failures in the 1980s. The ratio is calculated by taking the total nonperforming assets, including loans 90 or more days delinquent, and dividing by total equity plus loan loss reserves. When the 'Texas Ratio' is greater than 100%, the probability of bank failure is considered high. As illustrated by Chart 9 neither of the sub-sectors currently have a median score above 50%.

Chart 9: Median "Texas Ratio"

The median score for all peer groups is well below the 100% level that indicates an elevated risk of failure.



Even though the median Texas Ratio is relatively low, investors are cautioned to examine individual institutions for riskiness – there are banks in each peer group with Texas Ratios far in excess of 100%.

This section will concentrate on examining standard measures of pure financial return. As we know, financial return is generated via (a) accretion in the book value of the investments (b) increase in the valuation of the bank (i.e. multiples to book or earnings) and (c) by creation of liquidity for the investors.

Charts 10 and 11 below demonstrate that the median return on average equity (ROAE) and return on average assets (ROAA) for CDFI and Quadrant 1 Banks between year-end 2000 and year-end 2007 is fairly similar to the median return on equity for non-CDBI banks of the same size. The ROAE decline during the current recession (2007-2010) is slightly larger for the median CDBI but the ROAE of the median bank in the asset based peer group is not much better.

Chart 10: Median Return on Average Equity

The median ROAE for CDBIs has been comparable with the median score for the asset based peer group.

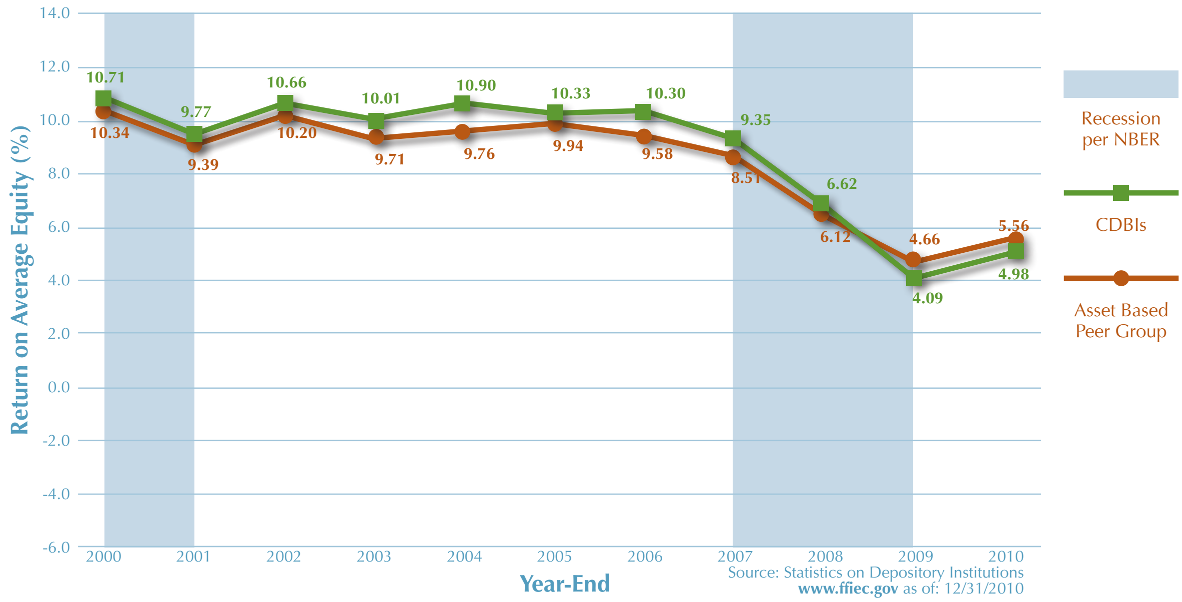
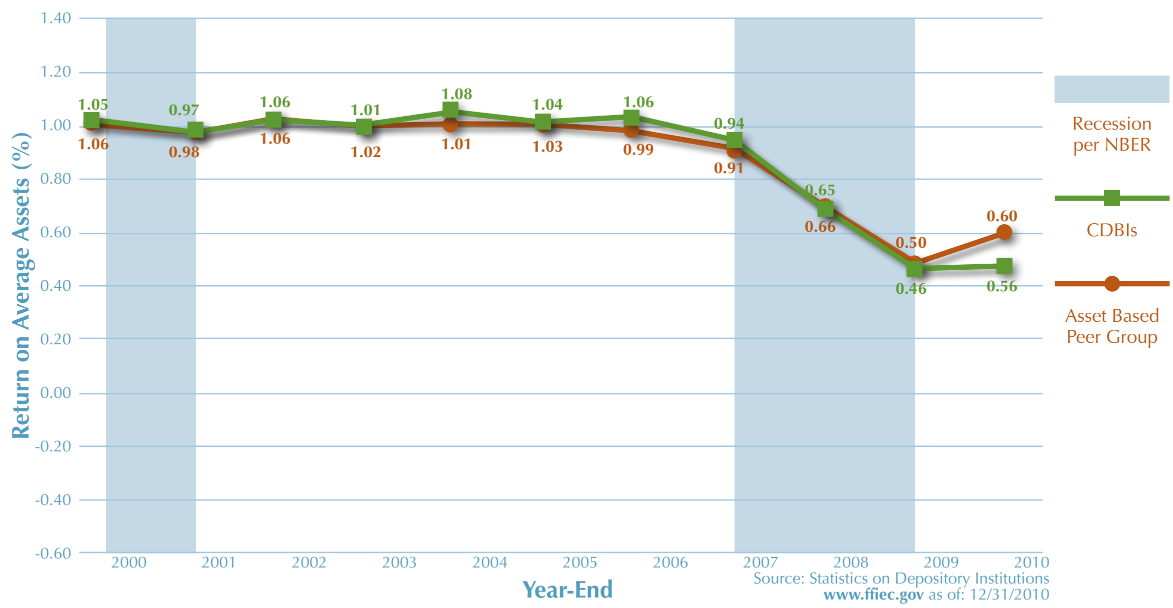


Chart 11: Median Return on Average Assets

The median ROAA for CDBIs has been comparable with the median score for the asset based peer group.



During the period 2000-2007, the return on average assets for the median CDBI is in-line with the peer group median, and is only slightly below the asset based peer group during the past two years.

We should point out that these are median numbers and there are several high impact CDBI banks that are currently in the process of repairing their balance sheets and enhancing financial performance since they have been adversely impacted by the effects of the current financial crisis, increase in capital requirements, increase in regulatory costs and the decline in non-interest income sources.

Investors need to do their own due diligence on risk, return and impact before making investment decisions.

There are many ways in which investors and stakeholders can support CDBIs. This can be done either directly by seeking them out individually or via national intermediaries like National Community Investment Fund that are dedicated to serving the sector.

Common and Preferred Equity

Banks are unique among all Community Development Financial Institutions in that they are able to leverage equity investments ten times by raising deposits. Assuming a leverage ratio of 10:1, a $1 equity investment has the potential to become $11 dollars of new funding that the bank can use to lend to local entrepreneurs, small business owners, and consumers.

An equity investment in the common or preferred stock of CDBIs is the most valuable form of support.

Investment Evaluation Factors:

Risk: Institutional risk – a detailed analysis of the survivability of the institution needs to be conducted prior to making the investments.

Return: Investors should expect to get a "reasonable" financial return along with a substantial social return resulting in a high Total Return. The financial return by itself is likely to be lower than that generated by a mono-line or non-mission oriented bank.

Leverage: Given the 10:1 leverage explained above the potential impact in low- and moderate-income communities is likely to be much higher.

Purchase of Assets for Capital Management

Currently many banks are experiencing capital shortfalls due to deterioration of their asset quality. This requires them to either raise capital or to sell (a) seasoned and high quality assets or (b) distressed and written down assets. Investors can support the CDBIs by buying these assets.

Investment Evaluation Factors:

Risk: Primarily Asset Based Product Risk – The risk to an investor is its ability to evaluate and price performing and non-performing loans. Apart from relying on the CDBIs for ongoing servicing, the risk of supporting the sector using this mechanism is relatively independent of the institutional-level risk.

Return: Investors should expect to get "reasonable" – perhaps market rate – financial return.

Leverage: 1:1 Sale of financial assets allows the CDBIs to book more loans in LMI communities. Investors not willing to place equity can support the banks by creating a highly responsible "originate to sell" program.

Operating Accounts and Core Deposits

CDBIs have to raise deposits from outside their service areas since the amount of surplus cash among economically disadvantaged communities is less, in comparison to non-disadvantaged communities. Mainstream, socially responsible, faith based, public sector and other investors can help by opening operating accounts and placing long term core certificates of deposits with CDBIs.

Investment Evaluation Factors:

Risk: No institutional risk if deposits are less than the federally insured amounts

Return: Market Rate

Leverage: 1:1 – CDBIs can use each $1 of deposit to make $1 in loans in their target communities.

Co-lending and Loan Participations

Equity and deposits are liabilities of banks and hence "cost" money – banks, in turn, make money by making loans. Investors can help them by enabling them to book high quality loans to earn interest income.

New Markets Tax Credit, SBA, Small Business Lending Fund, CDFI Bond Guarantee and other Government Programs

Investors can partner with CDBIs to help them participate in the New Markets Tax Credit program and other programs that help enhance their strength and performance, while managing the cost of capital.

9 Conclusion

This paper demonstrates that the Social Return of the Community Development Banking Institution sector is consistently higher than peer groups, and, at the median, the Financial Return of the sector, as measured by risk and return, is comparable to non-mission oriented financial institutions. Overall, the CDBI sector has demonstrated a willingness and ability to grow during both normal times and during tough economic environments.

Stakeholders need to consider taking significant action to support these high-impact institutions during the current downturn and beyond. Investing in these institutions, whether it be through equity investments, loans, deposits or operating accounts, will ensure that underserved markets continue to have consistent access to responsibly priced financial services. Investing in these institutions will also generate an attractive Total Return as measured by the sum of Financial Return and Social Return.

Total Return = Financial Return + Social Return

It is our mission at NCIF to increase the size and visibility of the asset class of CDBI banks and get them to eventually become certified as CDFIs. This mission is consistent with the mission of the CDFI Fund and the result of this mission will be many more certified CDFI banks that are serving the needs of the country's most economically vulnerable citizens.

Despite their challenges, community development banks are a critical channel for delivering affordable credit and other financial services in low- and moderate-income communities around the country. With NCIF's social performance metrics, investors can now allocate capital to institutions with the highest impact.

Luther M. Ragin, Jr.
Chief Investment Officer, F.B. Heron Foundation

We applaud the Social Performance Metrics initiative of NCIF – we strongly support the effort to create industry standards. It is helpful for the industry to identify more CDBIs and rank them from an impact perspective. As an industry we are coalescing to include more social performance metrics such as other forms of lending and job creation to highlight the unique role CDBIs play in LMI communities. NCIF's work in this sector helps investors value the Social Return generated by CDBI Banks.

David C. Reiling
Chief Executive Officer, Sunrise Banks

State-by-State Distribution of CDFI Banks and CDBIs[10]

(Source: www.fdic.gov; As of: 12/31/2010)

#	State	CDFIs	Quadrant 1 Banks	CDBI Banks
1	Alabama	3	19	22
2	Arizona	0	2	2
3	Arkansas	1	11	12
4	California	9	28	37
5	Colorado	1	6	7
6	Connecticut	1	1	2
7	Florida	0	13	13
8	Georgia	5	19	24
9	Illinois	15	16	31
10	Indiana	0	2	2
11	Iowa	0	2	2
12	Kansas	0	1	1
13	Kentucky	1	10	11
14	Louisiana	3	37	40
15	Maine	0	1	1
16	Maryland	2	3	5
17	Massachusetts	1	6	7
18	Michigan	1	1	2
19	Minnesota	4	6	10
20	Mississippi	12	15	27
21	Missouri	1	13	14
22	New Hampshire	0	1	1
23	New Jersey	2	7	9
24	New Mexico	0	5	5
25	New York	2	12	14
26	North Carolina	1	4	5
27	Ohio	0	11	11
28	Oklahoma	6	20	26
29	Oregon	1	3	4
30	Pennsylvania	1	10	11
31	**Puerto Rico**	**0**	**7**	**7**
32	South Carolina	2	11	13
33	Tennessee	3	13	16
34	Texas	1	44	45
35	Virginia	1	10	11
36	Washington	0	8	8
37	Washington, DC	2	0	2
38	West Virginia	0	16	16
39	Wisconsin	3	3	6
40	Wyoming	0	1	1
	Grand Total	**85**	**398**	**483**

[10] As of 12/31/2010. No CDFI banks or CDBIs are headquartered in the following states: Alaska, Delaware, Hawaii, Idaho, Montana, Nebraska, Nevada, North Dakota, Rhode Island, South Dakota, Utah and Vermont.

State-by-State Distribution and Summary Financial Highlights of CDBI Banks

(Source: www.fdic.gov; As of: 12/31/2010)

#	State	# of CDBIs	Total Assets ($000)	Total Loans ($000)	Median ROAA (%)	Median ROAE (%)	Median DLI-HMDA (%)	Median) DDI (%)
1	Alabama	22	4,605,195	48,802	0.73	7.38	54.29	70.83
2	Arizona	2	397,811	144,328	-1.53	-17.14	86.08	58.33
3	Arkansas	12	3,237,785	118,190	0.85	7.53	55.47	66.67
4	California	37	11,169,255	121,115	0.26	2.49	66.09	75.00
5	Colorado	7	1,868,892	130,165	0.45	5.41	53.41	75.00
6	Connecticut	2	191,762	75,810	-0.95	-9.47	77.31	75.00
7	Florida	13	2,516,503	121,452	0.12	1.33	59.80	58.33
8	Georgia	24	5,038,822	109,533	0.07	1.21	62.91	78.41
9	Illinois	31	4,948,576	71,215	-1.06	-12.41	64.91	77.78
10	Indiana	2	118,293	49,150	1.61	9.47	60.43	100.00
11	Iowa	2	212,048	76,952	0.25	2.56	44.74	50.00
12	Kansas	1	76,907	50,156	0.06	0.58	40.54	50.00
13	Kentucky	11	6,560,286	183,542	0.69	6.70	62.76	66.67
14	Louisiana	40	9,651,464	98,444	1.01	10.15	52.92	71.43
15	Maine	1	508,978	407,430	0.98	8.55	48.63	53.33
16	Maryland	5	2,139,210	57,996	-0.69	-6.69	55.12	71.43
17	Massachusetts	7	1,902,028	179,229	0.54	5.05	49.72	50.00
18	Michigan	2	1,046,001	355,177	-0.21	-2.46	33.78	62.50
19	Minnesota	10	1,364,805	68,918	0.52	5.09	52.81	83.33
20	Mississippi	27	11,347,526	165,175	0.70	7.40	48.46	60.00
21	Missouri	14	2,288,100	89,605	0.67	6.57	58.39	67.95
22	New Hampshire	1	110,650	63,411	0.30	2.73	40.77	100.00
23	New Jersey	9	2,556,708	169,305	0.42	3.73	66.56	66.67
24	New Mexico	5	957,282	121,255	1.13	12.20	51.79	69.23
25	New York	14	5,148,875	139,439	0.55	3.36	60.42	77.50
26	North Carolina	5	1,403,632	170,618	0.04	0.21	49.91	70.00
27	Ohio	11	3,959,259	61,411	0.63	6.96	63.45	73.33
28	Oklahoma	26	3,471,444	60,478	1.20	11.44	63.28	67.71
29	Oregon	4	1,814,828	177,939	0.33	3.33	50.81	57.14
30	Pennsylvania	11	3,667,158	76,898	0.56	3.50	59.51	61.11
31	Puerto Rico	7	77,879,324	5,214,786	0.13	1.22	87.78	76.92
32	South Carolina	13	3,720,795	98,396	0.20	1.77	53.29	61.54
33	Tennessee	16	3,884,912	143,570	0.52	4.24	57.48	68.63
34	Texas	45	21,823,851	129,703	0.81	6.74	59.32	63.49
35	Virginia	11	3,431,049	125,939	0.52	4.64	64.07	66.67
36	Washington	8	1,376,412	112,210	0.22	2.05	58.00	76.28
37	Washington, DC	2	539,851	171,502	0.36	2.70	78.65	85.71
38	West Virginia	16	8,620,792	121,402	0.77	7.11	54.50	70.83
39	Wisconsin	6	905,323	60,050	0.32	3.36	56.84	75.00
40	Wyoming	1	66,573	40,881	0.22	2.32	40.53	66.67
	Total	**483**	**216,528,965**					
	Average		**448,300**	**295,502**	**0.27**	**1.33**	**61.17**	**72.14**
	Maximum		**28,974,000**	**19,501,000**	**3.70**	**32.55**	**100.00**	**100.00**
	Median		**171,335**	**112,372**	**0.56**	**4.98**	**58.02**	**66.67**
	Minimum		**7,414**	**3,526**	**-12.36**	**-249.94**	**0.00**	**0.00**

[1] The Community Development Financial Institutions Fund (CDFI Fund) is a division within the US Department of the Treasury that certifies financial institutions that have a community development mission. Certified Community Development Financial Institutions (CDFIs) are able to apply for subsidy and grant programs.

State-by-State Distribution and Summary Financial Highlights of Certified CDFI Banks[11]

(Source: www.fdic.gov; As of: 12/31/2010)

#	State	# of CDFIs	Total Assets ($000)	Total Loans ($000)	Median ROAA (%)	Median ROAE (%)	Median DLI-HMDA (%)	Median) DDI (%)
1	Alabama	3	316,655	202,663	0.12	1.65	30.51	66.67
2	Arkansas	1	1,078,662	613,227	0.88	8.78	38.95	22.22
3	California	9	2,159,923	1,516,026	-0.47	-4.69	67.03	66.67
4	Colorado	1	82,931	61,114	1.44	20.73	100.00	100.00
5	Connecticut	1	40,191	24,059	-1.13	-11.03	93.87	100.00
6	Georgia	5	1,158,821	747,111	0.20	1.86	41.55	81.82
7	Illinois	15	2,870,801	1,885,443	-0.46	-7.19	72.63	66.67
8	Kentucky	1	35,549	14,137	0.90	6.49	NA	100.00
9	Louisiana	3	1,167,648	570,075	0.66	6.63	54.66	75.00
10	Maryland	2	325,903	252,764	-1.06	-11.10	56.72	75.71
11	Massachusetts	1	522,899	322,347	0.14	1.97	49.72	80.00
12	Michigan	1	183,846	108,080	-0.15	-1.89	11.22	75.00
13	Minnesota	4	647,434	464,019	1.12	10.97	72.87	100.00
14	Mississippi	12	7,597,542	5,058,609	0.55	5.78	39.43	58.58
15	Missouri	1	171,335	120,029	1.68	13.25	46.14	42.86
16	New Jersey	2	536,992	357,256	-0.36	-7.16	52.26	75.00
17	New York	2	1,331,583	1,112,006	-2.65	-31.71	66.97	66.67
18	North Carolina	1	312,190	201,771	0.32	2.78	15.87	70.00
19	Oklahoma	6	428,482	278,233	1.01	11.06	33.15	33.33
20	Oregon	1	145,420	116,676	-1.61	-36.85	2.75	40.00
21	Pennsylvania	1	74,154	45,612	-1.38	-14.41	100.00	100.00
22	South Carolina	2	1,011,375	591,994	-0.02	-0.50	40.83	80.77
23	Tennessee	3	456,982	337,252	0.48	5.04	33.75	75.00
24	Texas	1	2,262,442	990,910	-0.10	-0.53	69.05	65.00
25	Virginia	1	50,441	27,269	1.02	4.64	NA	0.00
26	Washington, DC	2	539,851	343,004	0.36	2.70	78.65	85.71
27	Wisconsin	3	344,641	274,513	-0.94	-7.45	80.54	100.00
	Total	**85**	**25,854,693**	**16,636,199**				
	Average		**304,173**	**195,720**	**-0.15**	**-4.50**	**53.30**	**67.02**
	Maximum		**2,262,442**	**1,493,682**	**1.93**	**20.73**	**100.00**	**100.00**
	Median		**180,329**	**114,770**	**0.32**	**2.51**	**49.72**	**66.67**
	Minimum		**7,414**	**3,526**	**-4.32**	**-126.55**	**0.00**	**0.00**

[11] As of 12/31/2010. No CDFI banks were headquartered in the following states: Alaska, Arizona, Delaware, Florida, Hawaii, Idaho, Indiana, Iowa, Kansas, Maine, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Ohio, Puerto Rico, Rhode Island, South Dakota, Utah, Vermont, Washington, West Virginia and Wyoming.

Community Development Banking Institution Designation Methodology

COMMUNITY DEVELOPMENT BANKING INSTITUTION

DESIGNATED
COMMUNITY DEVELOPMENT
CDBI
BANKING INSTITUTION℠

Community Development Banking Institutions (CDBIs) are certified CDFI banks and those banks that are not yet CDFI certified, but have a mission of community development and "walk, talk and act" like CDFIs. NCIF expects that over a period of time they will become certified CDFIs.

THE DESIGNATION PROCESS

(A) Institution is a certified as a "Community Development Financial Institution" by the **CDFI Fund**

OR

(B) Institutions meets a combination of NCIF Screens:

1. Quantitative Screens:
Institution meets thresholds per the **NCIF Social Performance Metrics℠**

- ***Development Lending Intensity (DLI) Score > Threshold Value***
  - i. DLI – HMDA threshold is proposed to be 40%
  - ii. DLI – Commercial Real Estate threshold is to be determined
  - iii. DLI – Small Business threshold is to be determined
  - iv. DLI – Consumer threshold is to be determined
  - v. DLI – Agriculture threshold is to be determined
- ***Development Deposit Intensity (DDI) Score > Threshold Value***
  - i. DDI threshold is proposed to be 50%

AND

2. Qualitative Screens:
Institution demonstrates mission focus using **NCIF Model CDBI Framework**

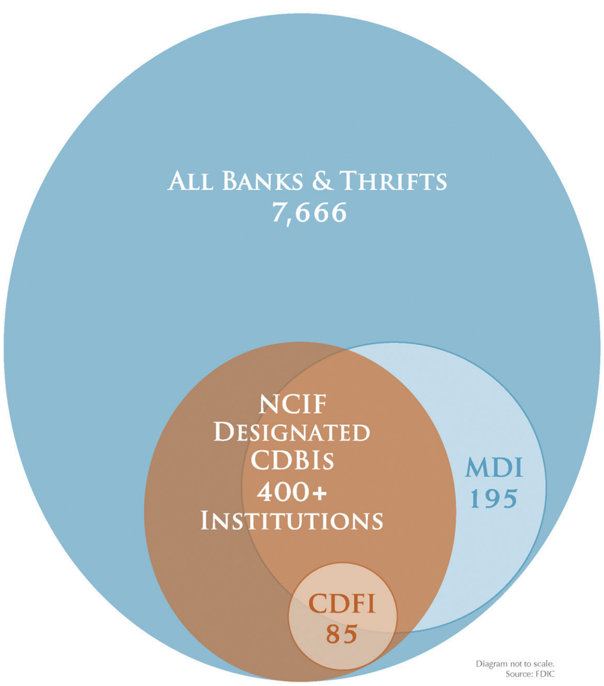


Diagram not to scale.
Source: FDIC

Appendix 5

Definitions

A. Peer Groups

This paper compares the following peer groups:

1. **Certified CDFI Banks**

   As of December 31, 2010 there were 85 banks that were certified as CDFIs by the CDFI Fund. It should be pointed out that during 2010, 28 new banks got certified to become eligible to receive equity from the Department of Treasury under the Community Development Capital Initiative .

2. **Minority Depository Institutions (MDIs)**

   As of December 31, 2010 there were 195 financial institutions designated by the FDIC as MDIs.

3. **Community Development Banking Institutions (CDBIs)**

   This peer group contains all certified CDFI Banks and institutions in Quadrant 1 (eliminating duplication). There are 483 such institutions as of December 31, 2010.

4. **Banks with assets less than $ 2 billion as of December 31, 2010**

   As of December 31, 2010 there were 7,312 banks are less than $2 billion in assets representing 95.4% of the all the banks in the country.

B. Time Series Analysis

For this analysis, historical peer group data has been completed using the set of institutions operating in the cohort as of December 31, 2010. This enables us analyze the financial and social output data for the same set of institutions, rather than a different set of institutions at each reporting date. Financial and social output performance for all peer groups is being analyzed for the period of 2000-2010.

Note: since this data has been mined on all banks since 1996, NCIF can perform analysis for other than the above peer groups and for other time periods as well.

[12] The US Treasury created the Community Development Capital Initiative (CDCI) in 2010 to invest capital into CDFI banks and credit unions.

National Community Investment Fund

135 South LaSalle Street, Suite 2040 · Chicago, Illinois 60603 WWW.NCIF.ORG